

April 18, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

STATE SALES AND USE TAX ALLOCATION BREAKDOWN

On March 18, 2003 the Board of Supervisors requested the Chief Administrative Office to provide the formula for the State sales and use tax allocation between cities and counties. This report is in response to the Board's request.

The sales and use tax rate in the County of Los Angeles is currently 8.25 percent, of which 1.25 percent represents the local share. The local share consists of two components - the Bradley Burns Uniform Local Sales and Use Tax and the County Transportation Fund Tax.

The Bradley Burns Uniform Local Sales and Use Tax, which totals one percent, is allocated to the city in which sales occur, or to the County if the occurrence is in an unincorporated area. For Los Angeles County, revenue from this tax is discretionary, and is used to fund such critical countywide services as those provided by the Sheriff, Health Services, District Attorney, and Probation Departments. Los Angeles County receives approximately \$40 million in revenue from this tax, annually.

The County Transportation Fund Tax (CTFT) totals 0.25 percent. Revenue from the CTFT is earmarked by statute for County transportation programs, and therefore may be used only for road maintenance, or the operation of transit systems. CTFT revenue is allocated to the County in which sales occur. In 2001-02, Los Angeles County received approximately \$267.8 million in transportation fund tax revenue.

In addition to the 1.25 percent local share, cities and counties may levy a local "District" tax. District taxes are allocated to the jurisdiction in which the sales occur. These taxes

may be approved by a simple majority vote by the electorate, where revenues will be used for general purpose. Where proceeds will be earmarked for a specific purpose, two-thirds of the electorate must approve the district tax.

The County of Los Angeles currently assesses two 0.50 percent district taxes which were approved by the voters in July 1982 and April 1991. Revenues from these assessments are dedicated to the Los Angeles County Transportation Commission for public transit purposes. In addition, the city of Avalon adopted a 0.50 percent district tax (only applicable to sales occurring in Avalon) in October 2000 to provide additional funding for municipal hospital and clinical services. The statewide maximum rate for sales and use tax (including district taxes) is 8.75 percent. The 0.50 percent levied by Avalon places the County at the maximum allowable rate. This restricts the County as a whole from imposing any additional countywide district taxes; however, individual cities (and the County for the unincorporated areas) may request authority from the Legislature to assess an additional tax up to 0.50 percent. In 2001-02, the Avalon district tax and the County district taxes generated approximately \$284 thousand and \$1.05 billion, respectively.

The State sales and use tax rate is 6.0 percent- 5.0 percent for the State General Fund and 1.0 percent for specialized local purposes, otherwise known as Realignment and Public Safety Augmentation (Proposition 172) revenues. In 2001-02, Realignment and Proposition 172 revenues generated approximately \$676.5 million and \$490.0 million, respectively.

Realignment sales tax revenues are almost entirely allocated to counties in accordance with applicable legislation. Los Angeles County receives approximately 31 percent of the statewide collections for mental health, public health, and social services. In addition to the counties' allocation, the legislation also distributes a small portion of the public health Realignment sales tax collections (about 1 percent) to three cities (Berkeley, Long Beach and Pasadena). For mental health services, the legislation also allocates about 0.4 percent of Realignment sales tax collections to the city of Berkeley and to Tri-City, which serves the cities of Pomona, Claremont and La Verne.

Proposition 172 sales tax revenues are allocated to counties primarily using a State-calculated ratio, which is also in accordance with applicable legislation. This ratio is equal to each county's proportionate share of the prior calendar year receipts, divided by the total statewide receipts; and becomes effective in the subsequent fiscal year. Proposition 172 revenues are allocated to counties monthly, and are determined by using each respective ratio multiplied by each month's total statewide receipts. Los Angeles County's share is internally allocated by the Auditor-Controller to County departments (91 percent) and 59 qualifying cities (9 percent). The Board of Supervisors determines the County department allocation ratio and may only allocate the revenue to

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public safety departments such as Sheriff, District Attorney, Fire, or the Office of Public Safety. Currently, of the 91 percent the County receives, the Sheriff's Department receives 84.7 percent and the District Attorney's Office receives 15.3 percent.

The following table presents a summary breakdown of the County's cumulative sales and use tax rate of 8.25 percent (Avalon totals 8.75 percent):

Components of the County of Los Angeles Sales and Use Tax Rate	
Rate	Jurisdiction
1.25 %	Local (County/City)
1.00 %	Bradley Burns Tax
0.25%	County Transportation Fund Tax
1.00%	Local District Tax (County/City)
0.50%	Los Angeles County Transportation Commission
0.50%	Los Angeles County Transportation Commission
6.00%	State
5.00 %	General Fund
0.50%	Local Revenue Fund (Realignment)
0.50%	Local Public Safety Fund (Proposition 172)
8.25%	Total [1]

[1] Avalon's cumulative rate is 8.75 percent due to the additional 0.50 percent Local District tax .

If you have any questions, please do not hesitate to call me or your staff may contact Jackie White at (213) 974-1155.

DEJ:DIL:
JW:AB:vyg

Attachments

c: Executive Officer, Board of Supervisors
County Counsel